

CANADIAN
WESTERN
BANK

Think Western

Grande Prairie in
Profile

Let the Good Times
Roll BC Economic
Profile and Forecast

Will higher interest
rates force us to
practice what we
preach?

CanadaWest
FOUNDATION

Our Vision

A dynamic and prosperous
West in a strong Canada.

Our Mission

A leading source of strategic
insight, conducting and
communicating non-partisan
economic and public policy
research of importance to
the four western provinces,
the territories, and all
Canadians.

CURRENTS

September 2007

Foundation publication

Western Canada's Monthly Economic Bulletin

Monthly Highlights

Employment in the West changed little from July to August. Compared to August 2006, employment expanded 4.7% in Alberta and 3.2% in BC. While Alberta and BC outpaced the national average (2.3%), year-over-year employment gains in Saskatchewan (0.8%) and Manitoba (1.3%) lagged behind.

With the exception of BC, year-to-date growth in average weekly earnings in the West outpaced the national average.

Canada's inflation rate held steady at 2.2% in July. At the provincial level, inflation in Alberta remained the highest in Canada,

although it was down considerably from the previous month. Rising housing costs continue to be an important contributor to inflation across Canada.

Across the West, July building permits were down from June. However, compared to 2006, permits issued in the first seven months of 2007 were generally up. The largest percentage increases from 2006 to 2007 were residential construction in Saskatchewan (87.1%) and non-residential construction in Alberta (38.9%).

Retail sales growth in the West has outpaced the rest of the country, with Alberta and

Saskatchewan registering the largest increases. Compared to 2006, retail sales in the first half of 2007 were up 11.3% in Alberta, 11.1% in Saskatchewan, 9.2% in Manitoba, and 7.4% in BC.

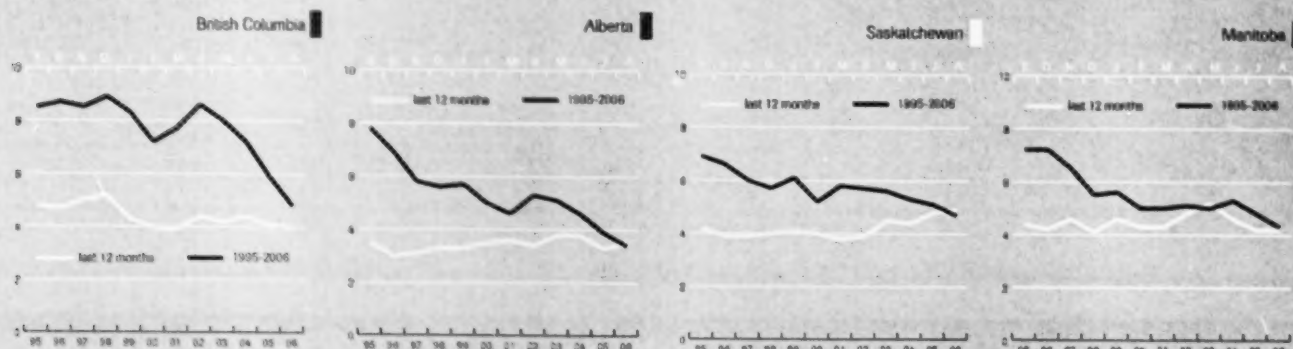
Compared to larger provinces, Manitoba's manufacturing sector has shown considerable strength. Shipments for January to June were up 13.7% from the same period in 2006.

Monthly Economic Statistics	BC	AB	SK	MB	Canada	Reference Month
Employment (SA, 000s)	2,265.9	1,968.7	495.5	596.4	16,671.9	August
% change, yoy	3.2	4.7	0.8	1.3	2.3	
Unemployment rate (SA, %)	4.0	3.5	4.9	4.2	6.0	August
Participation rate (SA, %)	65.9	74.1	69.3	69.2	67.5	August
Average weekly earnings (SA, \$)	761.42	834.26	723.00	711.43	769.43	June
% change, Jan-July 2007 average, yoy	2.3	4.5	3.5	4.0	3.1	
CPI inflation, annual (%)**	1.6	5.0	3.2	2.2	2.2	July
Building permits: residential (SA, \$ millions)	718.3	827.3	73.1	78.1	3,848.8	July
% change, Jan-July 2007, yoy	22.8	172	87.1	14.7	11.5	
Building permits: non-residential (SA, \$ millions)	269.2	539.9	63.4	42.8	2,306.6	July
% change, Jan-July 2007, yoy	14.2	38.9	-2.9	9.6	27.3	
Housing starts (SAAR, 000s)	35.0	44.0	6.1	5.1	215.6	July
% change, Jan-July 2007, yoy	-2.3	3.3	61.9	10.9	-5.4	
Retail trade (SA, \$ millions)	4,729	5,208	1,064	1,172	34,645	June
% change, Jan-June, yoy	7.4	11.3	11.1	9.2	6.3	
Wholesale trade (SA, \$ millions)	4,615	5,372	1,238	1,062	43,222	June
% change, Jan-June, yoy	5.5	4.9	22.6	9.0	5.3	
Manufacturing shipments (SA, \$ millions)**	3,496	5,572	873	1,335	48,647	June
% change, Jan-June, yoy	-0.6	3.8	-2.0	13.7	8.1	

year-over-year; SA=seasonally adjusted; SAAR=seasonally adjusted at annual rates

Unemployment Rate (%)

Source: Statistics Canada, CANSIM Table 262-0007 and 262-0002



Did you know?

➤ In Canada there are 624 internet users per 1,000 people. In China there are 72.

➤ The median age in India is 24 compared to 39 in Canada.

➤ During the Baby Boom years in Canada, there were on average 28 births per 1,000 people. Since 2000 the figure is approximately 11.

➤ Something that cost \$1 in 1980 would now cost \$2.53.

➤ From 1997 to 2005, Saskatchewan was the only western province where growth in labour productivity outpaced the national average.

➤ Almost 90% of the growth in Canada's population between 2001 and 2006 was concentrated in large metropolitan areas.

➤ Winnipeg has the most diversified economy of major cities in Canada.

CITY IN PROFILE: GRANDE PRAIRIE, ALBERTA

Located 455 kilometers northwest of Edmonton, the City of Grande Prairie is the regional economic centre of northwestern Alberta and northeastern BC. The city's population increased 27% between the 2001 and 2006 Census, making it the third fastest growing mid-sized urban centre in Canada. In 2007, Grande Prairie's population broke the 50,000 mark.

While Canada's population is aging, Grande Prairie boasts a relatively young population. The region's booming economy has attracted scores of people in the 18 to 34 age group. The median age in Grande Prairie is just under 30, 10 years lower than the country as a whole. Grande Prairie's rapid population growth is due to the robust economy of the Peace Region.

Major economic sectors include agriculture, forestry, and oil and gas. The city's largest private sector employers are in the forestry and oil and gas sectors. Major industrial facilities in the area include a sawmill, pulp mill, oriented strand board manufacturing plant, forestry-related manufacturing, and a sodium chlorate plant.

In 2006, Grande Prairie was ranked by *MoneySense Magazine* as the fourth best place to live in Canada.

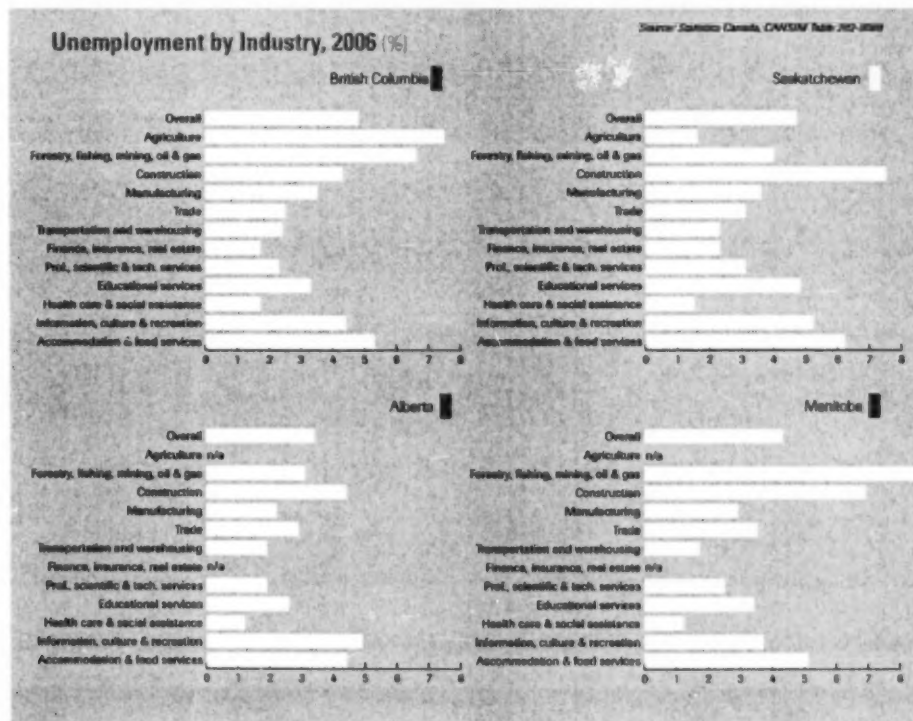


Panorama of Grande Prairie, AB

Behind the Numbers

The unemployment rate in the West is the lowest in a generation. Looking beneath the provincial figures, one can see that there is a fair degree of variability across industries. In sectors such as transportation and warehousing; professional, scientific and technical services; and health care and social assistance, rates of unemployment are very low.

In addition, there have been some big changes in the employment picture over time. For example, growth in total employment from 1990 to 2006 was driven by gains in the services producing sectors. Eighty-four percent of job gains in the West were in service industries. In the rest of Canada, the figure is 99%.





Kelowna, British Columbia

LET THE GOOD TIMES ROLL BC Economic Profile and Forecast

It has been nearly a generation since British Columbia last enjoyed a comparable period of economic expansion. Employment growth over the past five years in BC outpaces every province except Alberta. In March 2007, BC's unemployment rate dropped below 4%, an all-time low for the province. Although it did not stay below 4% for long, this milestone is indicative of how far the province has come. Not only do more British Columbians have jobs, gains in real personal disposable income have been healthy in the past few years. In 2006, BC's economy outperformed the national average for the fifth straight year.

Wholesale and retail trade and construction experienced significant growth in 2006, with construction playing a key role in driving the provincial economy. Housing starts have slipped, but the housing market remains strong. Non-residential construction continues to play a vital role in BC's growth. The value of building permits in BC doubled in the past five years and the upward trend carried over into 2007.

The mining industry has rebounded, with recent years being characterized by strong global demand for base metals and other commodities, and soaring prices. As a result, the mining industry has performed well—industry earnings are up significantly, as are investments in capital and expenditures on exploration and development. New employment opportunities have been generated in every region of BC and government revenue from the industry has escalated.

Across the province, most sectors of the economy are performing quite well. Forestry is one notable exception.

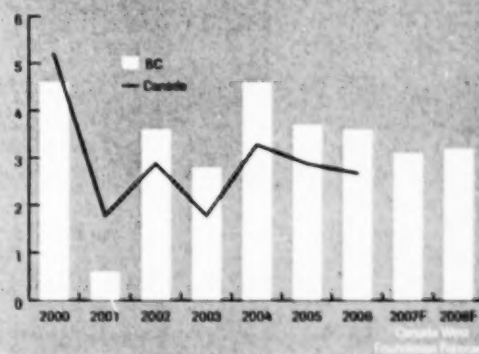
BC's strong performance is likely to continue. The retail, wholesale, and services sectors will continue to perform well due to solid employment and income growth in the province. High levels of construction activity and business investment, ongoing strength in worldwide demand for base metals and other commodities, growth in China and India, and an educated and skilled workforce will all contribute to sustained economic growth.

Public policy developments such as the implementation of the BC-Alberta Trade, Investment, and Labour Mobility Agreement (TILMA) will also contribute to a positive future. By working cooperatively with Alberta on the TILMA, BC has enhanced its economic competitiveness.

Of course, the province is not immune from some challenges and risks. The current strength of the Canadian dollar presents difficulties for the export sector, which has shown weakness as of late. While the red hot job market means that employment opportunities are plentiful, employers have been faced with constraints caused by skill and labour shortages and the prospect of rising compensation costs. The future performance of the US economy is uncertain, especially with the recent fallout from the sub-prime mortgage crisis.

Despite some challenges and risks, the overall economic outlook for the province is quite favourable. The Canada West Foundation is forecasting real GDP growth of 3.1% for 2007 and 3.2% for 2008.

BC Real GDP Growth & CWF Forecasts for 2007 and 2008 (annual % change, chained 1997 dollars)



Sources: Statistics Canada, Provincial and Territorial Economic Accounts Review 2006 Preliminary Estimates, Catalogue no. 13-016-XIE and Canada West Foundation

Will higher interest rates force us to practice what we preach?

by Brett Gartner, Economist

Most Canadians would agree that governments should be well disciplined when it comes to spending. Canadians work hard and the taxes that are deducted each payday should be treated with respect.

This sentiment is not the exclusive domain of traditional fiscal conservatives—those who wave the flag of smaller government and tax cuts. It is shared by supporters of Canada's broad range of social programs—people who are comfortable paying higher taxes in exchange for universal health care and the like, but are not eager to return to the days of massive budget deficits.

Despite the fact that balanced budgets now rule the day, governments of all stripes continue to draw criticism for the way they handle the public purse. How often is this criticism a case of "do as I say, not as I do." In other words, how much comes from those who are less than financially responsible in their own lives?

The personal saving rate in Canada is lower than it has been in 45 years, averaging barely more than 2% over the past three years. This compares to 12% in the 1970s and 15% in the 1980s.

Since 1990, spending by Canadian households has grown three times faster than income and household saving has dropped like a stone, from over \$7,000 per year to roughly \$1,000.

From 1999 to 2005, total debts of Canadian households increased 48%, adjusting for inflation. Mortgages were responsible for over half of this increase. The price of homes has increased considerably and we all need a place to live so it isn't shocking that mortgage debt has gone way up. However, lines-of-credit, credit cards and vehicle loans have also contributed to the increase in the total debt load of Canadians. Over this six year period, credit card debt increased 58% and line-of-credit debt increased 130%. The number of Canadian families with lines-of-credit went up almost 77%.

Not all debt is bad though. Borrowing for post-secondary education or to purchase a home is usually viewed as good debt. Borrowing money for a 60 inch wide screen TV or a trip to Europe is not. The same goes for governments.

Financing critical public infrastructure with debt can be good way to go. Going further into debt year after year to pay for program spending is not.

Shopping is widely viewed as a form of recreation, a way to have fun. Contrary to the advertising messages of some retailers and credit card companies, conspicuous consumption does not make us happier. But it often leaves us with more debt. And not the good kind.

In this "buy now, pay later" society, many people expect to have it all now. The notion of putting a little bit of money away each payday and saving over time to buy home furnishings, a car, or to go on a vacation is increasingly regarded as old-fashioned.

Getting back to housing, mortgage debt has increased substantially. While it is true that rising house prices mean that home ownership is seldom possible without a large mortgage, the average size of homes has grown significantly over time. Many people buy more house than they need and take on additional debt in the process. If a mortgage on a house is good debt, does that make a huge mortgage on a much larger and extravagant home better debt?

Overspending on housing, getting a more expensive car or buying tons of stuff on a line-of-credit may seem like a good idea when interest rates are low. But, if interest rates rise, some Canadians may start to feel financial pain, particularly those who are already overextended.

There is no valid excuse for wasteful spending on the part of governments. Regardless of whether you believe that government spending and taxes should be cut or you support public health care, a strong social safety net, and the tax revenues that pay for the programs, you have every right to expect that government finances are handled with the utmost care and respect. If we put our money where our mouth is and clean up our personal or household finances, perhaps governments will take criticism more seriously and do a better job with public finances.

Then again, maybe not. But, at least more of us could proudly say that we practice what we preach. ■

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